

MINUTES
INVESTMENT COMMITTEE MEETING
RETIREMENT BOARD OF TRUSTEES
CITY OF BATON ROUGE AND PARISH OF EAST BATON ROUGE
EMPLOYEES' RETIREMENT SYSTEM
AUGUST 24, 2021

The Investment Committee meeting was held in the boardroom of the Retirement Office at 209 Saint Ferdinand Street, and was called to order at 1:25 p.m. by Investment Committee Chairman Mr. Mark LeBlanc. Committee members present: Mr. David West and Mr. J. Daniels. Absent: None. Other Board members present: None. Staff present: Mr. Jeffrey Yates, Mr. Russell Smith, Mr. Kyle Drago, and Mr. Mark Williams. Others present: Mr. Jon Breth and Mr. Chris Brokaw – AndCo.

Mr. Drago formally called the roll.

The chairman stated that the first item on the agenda was Item 1, Presentation by AndCo of Second Quarter 2021 Investment Performance Review for CPERS and PGT, and recognized Mr. Breth for his comments. Mr. Brokaw began by covering the economic review for the period, and stated that transitory inflation was a concern. He showed the fixed income returns for the portfolio and noted that there appears to be evidence of transitory inflation. He stated that stimulus measures had put more money in the economy which helped markets improve, but fixed income had gone up and down based on inflation fears. For the second quarter, growth continued to outperform value, and financials led the charge, which was a noteworthy change from past quarters. Mr. Brokaw gave more detailed data regarding fixed income spreads, sector performance, and duration. He also analyzed the most recent yield curve. Mr. Breth then covered the second quarter performance, noting an overall return of 5.6% which brought the calendar year return to 8.8%, and the one-year return up 27.7%, with essentially all components of the portfolio hitting on all cylinders. Most managers outperformed their respective benchmarks with the exceptions of Magnitude and GTAA, which are in more conservative positions. He noted that cash reflected a high balance because of the funding of Principal Real Estate which straddled two months. He also noted that no funding had yet taken place for the infrastructure allocation to IFM. Mr. Breth then gave comments regarding each equity manager and stated that with the excellent performance of the US equity managers, there is currently an over-allocation to those managers that needed to be corrected with a rebalancing across the portfolio. He also gave comments relative to the international and emerging markets portfolios, all which had done exceptionally well for the quarter and the year. Regarding fixed income, a more aggressive posture in corporate bonds, high-yield and currencies had paid off with higher performance. He noted that Clarion's performance had held up very well with the sector and property allocations they have put in place. Mr. Breth then reviewed the private investments, and noted a new report that focusses on more detail for the PE managers. He noted that although CPERS committed to a certain amount for PE investment, but that the entire amount of capital may not get called, based on the managers' strategies. Mr. Breth then reported on the Police Guarantee Trust (PGT) performance, noting the total revamping in the last 2 years, and reported that the PGT was up 4.6% for the quarter, 6.15% for the calendar year, and 19.3% for the one year period; all with a very conservative and very liquid portfolio. The allocation to cash had also been revamped to provide for the unique cash needs of the PGT, which in turn necessitated a need to amend the investment policy. He noted that using index funds had resulted in index-like returns, plus the PIMCO and BlackRock funds that were actively managed. He noted that the universe comparisons are the same ones as the CPERS portfolio, so they should be lightly regarded when applied to the PGT portfolio.

Moving to Item 2, Discussion of CPERS Rebalancing, Mr. Breth called the committee's attention to a schedule showing that rapid moves in the market had propelled US and international equity outside of its targeted limits. He believed now was a good time to rebalance and take some of the equity portfolio risk off the table. The net effect of the rebalancing would be to reduce the large-cap equity managers by \$33 million, reduce the international equity managers by \$20 million, and reinvest those funds within fixed income. He noted an allowance for \$5 million for the immediate cash needs of the system. In answer to a question from Mr. West, Mr. Breth stated that WCM, funds were being trimmed because of their excellent performance, with a reversion to the mean expected. It was noted that a motion to rebalance the portfolio was not needed since the investment policy allows for it as an automatic process when the maximum allocations are exceeded.

The next item on the agenda was Item 3, Review of Magnitude Capital Hedge Fund of Funds, and Mr. Breth stated that Magnitude had done what they stated they would do when they were hired, but that the question had to be asked whether or not Magnitude was the best choice of hedge fund managers for CPERS. To answer that question, AndCo compared Magnitude to a number of other hedge fund of funds managers that they think highly of. He noted that the materials presented a side-by-side look at six managers, including Magnitude for comparison and contrast purposes. Mr. Breth gave a brief history of the other five firms and their strategies, options to client, and what to expect from each one. He continued by discussing how each manager added value to their clients' portfolios, as well as how each manager assesses fees, which can be an important factor with hedge fund managers. Another important factor was liquidity, which varies greatly with hedge funds. He stated that a client should always be looking for the right combination of liquidity and strategy. He noted that the one thing that stood out about Magnitude, when compared to the other managers, was their fee on performance, but without a hurdle rate. He then compared annualized returns for all six managers, as well as the most recent 3 and 5-year periods. He also showed the risk for each manager as revealed by the standard deviation. He noted that Magnitude maintains a very low level of beta to the broad equity indices, which accounts for the lackluster performance during times of strong equity markets. Mr. Breth stated that he and Mr. Brokaw did not feel that Magnitude was the best choice for CPERS, and that he would like CPERS to move forward with requesting a total redemption of funds from Magnitude at the earliest redeemable date. That date would probably be early in 2022. Mr. West noted that the Evanston fund

seemed to carry advantages in every category. Mr. Breth thought that Ironwood, Corbin and Evanston would make good candidates for the CPERS portfolio, either alone or in some combination. If only one manager was hired, he would steer the committee away from Ironwood because of the absolute return strategy employed. Both Mr. LeBlanc and Mr. West stated that they would support bringing in Corbin and Evanston for presentations, with the hope of hiring one or both firms. It was agreed that the presentations could take place in September if the firms could accommodate. Discussion continued regarding the timing of the redemption notice and actual receipt of the funds. Mr. Breth stated that he would not have any hesitation with a 1-year lockup period imposed by the selected firm.

Motion by Mr. LeBlanc, seconded by Mr. West to initiate a redemption of the Magnitude Capital funds, and should the replacement manager not yet be hired at the time of the redemption, the funds would be parked in the BlackRock GTAA account until the replacement manager is hired.

No discussion and no objections.

Motion passed by those members present.

Moving to Item 4, Review of Updated Investment Policy Statement, Mr. Brokaw stated that a change was needed for the PGT regarding the cash allocation, currently set at 10%. AndCo was recommending an allocation of 2%, with the difference of 8% being split between the equity fund and fixed income fund. The basis for doing this is to generate additional return since the PGT now had daily liquidity and could be accessed quickly should the need arise.

Motion by Mr. West, seconded by Mr. Daniels to adopt the changes to the Investment Policy in relation to the PGT allocation in Appendix A and B as recommended by AndCo.

Under discussion Mr. Breth stated that the Investment Policy would likely be reviewed again mid-year of 2022.

There were no objections to the motion.

Motion passed by those members present.

Seeing no Administrative Matters or other items on the agenda, the chairman called for a motion to adjourn.

Motion by Mr. West, seconded by Mr. LeBlanc to adjourn the meeting at 2:56 p.m.

No discussion and no objections.

Motion passed by those members present.

MARK LEBLANC
INVESTMENT COMMITTEE CHAIRMAN

JEFFREY R. YATES
RETIREMENT ADMINISTRATOR